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Retyped per DD/S memo
dated 31 Mar '64.
to DD/P.

MEMORANDUM FOR: Deputy Director for Support

SUBJECT : Decentralization of Certifying Authority at Headquarters

REFERENCES : (a) Memo to Compt fr AC/TAS dtd 18 Sept 62,
Subj: A Proposal for the Establishment of
a Central Office at Headquarters for
Processing Travel Vouchers Chargeable
to Confidential Funds

(b) Memo to DD/S fr Compt dtd 9 Oct 62,
Subj: Establishment of Central Office for
Processing Travel Vouchers

(c) Memo to Compt fr DD/S dtd 22 Oct 62,
Subj: Establishment of Central Office for
Processing Travel Vouchers

1. This staff study submits recommendations for approval; such recommendations are contained in paragraph 7.

2. PROBLEM

To determine the extent to which authority to certify vouchers and advances for payment and accountings should be decentralized to components outside the Office of Finance at Headquarters.

3. ASSUMPTIONS

a. Prior to or concurrent with the proposed move of the Office of Finance a determination will be made as to whether and to what

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extent decentralization of certifying authority should be made consistent with continued effective control over financial transactions.

- b. The term "decentralization of certifying authority" as used herein refers to the exercise of not only the certifying functions outside the Office of Finance but also the responsibility for the necessary work relating thereto, including voucher examination prior to certification, necessary classification and coding of transactions, maintenance of necessary records and files, etc. in accordance with established standards.
- c. The primary considerations in determining action to be taken in resolving this problem must be continuing assurance of effective control over the use of funds and economical utilization of manpower.
- d. Any decentralization of certifying authority must be limited by practical considerations to the types of transactions which can be effectively controlled and processed on a decentralized basis.
- e. In accordance with reference (a), a new component of the Office of Finance consisting of 13 positions will be established as a central travel office at the Headquarters Building to provide a centralized location for processing and certifying TDY and PCS travel claims chargeable to confidential funds. A determination will also be made with respect to the advisability of incorporating into this central travel office the vouchers funds travel unit consisting of five positions.

4. FACTS BEARING ON THE PROBLEM

- a. The present centralization of certifying authority and related functions result in a degree of duplication of effort in the processing of certain types of financial transactions. This duplication arises from the necessity for certain aspects of financial transactions to be handled in the originating component in order to maintain controls over basic authorizations, and the independent requirement for a critical audit and evaluation

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of individual transactions in the Office of Finance in connection with certification. The Agency should take steps to eliminate any unnecessary duplication of effort which now exists in the processing and certification of financial transactions, whether the non-essential work is at the decentralized component level or in the Office of Finance. Consideration of the justification for the present centralization of the certifying authority is warranted at this particular time in view of both the current emphasis on improved manpower utilization and the decision to move the Office of Finance to a location outside the Headquarters Building.

b. Confidential funds certifying authority up to this time has been decentralized outside of the Office of Finance only:

- (1) Where trained Finance Officers are provided to field activities, [REDACTED] because of their scope and volume of activities;
- (2) Where exceptional security is required, such as for the sensitive operations of the Office of Special Activities, Deputy Director for Science and Technology; and
- (3) To the Central Processing Branch, Office of Personnel, to facilitate the authorization and payment of travel advances, as well as the processing of invitee travel claims of recruitment applicants.

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S. DISCUSSION

- a. Decentralization of certifying authority should result in specific advantages in the processing of certain types of transactions. These advantages include (1) expediting payments, (2) improvement in security, and (3) elimination of duplication of effort between employees of the Office of Finance and employees of the decentralized components. On the other hand such action would have offsetting disadvantages, including (1) a tendency to weaken the present

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independent critical audit and evaluation of transactions, (2) a decrease in the uniformity of treatment of similar transactions, and (3) staffing difficulties and ineffective utilization of expertise, because of the necessity of placing competent Certifying Officers and alternates in each affected component. Tab A presents a detailed discussion of these advantages and disadvantages.

- b. Resolution of the problem of whether and to what extent certifying authority should be decentralized at Headquarters requires consideration of financial transactions by categories because of varying factors relating to the processing of each category. Generally speaking, it appears to be advantageous to centralize the certification functions for administrative activities and decentralize the functions for operational activities.
- c. Certain categories of transactions can be readily classified as being not feasible for decentralized certification, as discussed in detail in Tab B. These include generally confidential funds and vouchered funds travel claims, payrolls which can be processed more efficiently under mechanized procedures, transactions with other Government agencies which normally include charges applicable to many organizational components of the Agency, invoices for property, services and transportation which currently are processed without duplication of effort, payments to proprietary and operational investment projects for which centralized certification is deemed advisable at this time to provide effective accounting control.
- d. Other types of transactions better lend themselves to certification on a decentralized basis to obtain the advantages referred to in paragraph 5a, above, subject to adequate controls being provided over the exercise of the certifying authority. These types of transactions and the factors relating to their decentralized certification are discussed in Tab C. They include (1) advances for travel and other operational purposes for which individual accountings will be submitted by the advancees, and (2) operational claims and accountings for advances for which the finance employees

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In decentralized locations have more first hand knowledge or detailed background, or can more readily acquire it, than certifying officers in the Office of Finance.

- e. Decentralization of certifying authority should contemplate that the Director of Finance would appoint certifying officers from qualified SF Career employees and revoke the appointment of certifying officers whenever he has evidence of either improper action or lack of complete understanding of the responsibilities of a certifying officer. The decentralized certifying officer would be subject to the technical financial policy guidance of the Director of Finance in order to assure the maintenance of sound and consistent practices in performing the certification function. Periodic inspections of the actual performance of each certifying officer should be made by personnel assigned to the Office of Finance in order to identify areas in which technical guidance is required or certifications of transactions are not properly performed.
- f. The implementation of a decision to decentralize certifying authority would involve determinations of the areas to which the decision should initially apply, the additional workload applicable to such components, the decreased workload applicable to the Office of Finance, and the overall effect on the personnel ceilings of all affected components of the Agency. Data relating to these factors are provided and discussed in Tab II, which also presents and discusses factors related to the establishment of a central travel office as proposed in reference (a), and gives an estimate of the overall net effect on manpower.

6. CONCLUSIONS

- a. On balance, while there are offsetting disadvantages, a net advantage would be achieved by a limited decentralization of certifying authority to Headquarters components outside the Office of Finance at this time, especially in view of projected relocation of the Office of Finance outside of the Headquarters Building.

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- b. The Director of Finance should continue to have authority to appoint and to revoke appointments of certifying officers and should be authorized to conduct periodic inspections of the performance of the functions of all certifying officers.
 - c. Certifying authority should be decentralized at this time only for the components of the Office of the Deputy Director for Plans and the Office of Communications.
 - d. The categories of transactions listed in paragraph 1 of Tab C should be authorized for decentralized certification. All other categories of transactions, as listed and discussed in Tab B, should continue to be certified centrally.
 - e. In accordance with paragraph 3e, above, a central travel claims office should be established at the Headquarters Building as a new component of the Office of Finance to provide a centralized location for processing and certifying [REDACTED] TDY and PCS travel vouchers chargeable to both confidential funds and vouchered funds allotments.
 - f. Authority should be extended to the new central travel office consistent with references (a) and (b) to process travel vouchers other than those involving overseas TDY travel without further approval unless they reflect an itinerary and/or expenses different from that authorized in the approved travel authorization.
 - g. Implementation of the changes contemplated would result in an estimated savings of eight positions to the Agency, as outlined in Tab D.

7. RECOMMENDATIONS

It is recommended that:

- a. The certification, examination, and related functions outlined in Tab C be decentralized, and this action be initiated as outlined in Tab D.
- b. A central travel office be established in Headquarters Building under the Office of Finance to process confidential fund and vouchered fund travel accounts.

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- c. The operations under the central travel office and the decentralization of certifying authority implemented in accordance with recommendations a and b, above, be reviewed not later than 31 December 1965 to determine what further action, if any, is indicated on the basis of the experience gained to the date of such review.

R. H. FUCHS
Director of Finance

Attachments:

Tabs A, B, C, & D
Refs. a, b, & c

APPROVED: _____
Date

L. K. White
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for Support

FINANCE:jat

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TAB
A

TAB A

ADVANTAGES AND DISADVANTAGES OF DECENTRALIZING CERTIFYING AUTHORITY TO HEADQUARTERS COMPONENTS

1. ADVANTAGES

- a. Savings of time required to effect payment. Since present procedures require some review of payment documents at the decentralized Budget and Fiscal Offices where any decentralized certification would occur, the documents could flow directly from the components to the Disbursing Officer, without an intervening stop for examination and certification at the Office of Finance. In addition, time savings in transaction processing may in some instances accrue because the decentralized certifying officers would have more direct access to operational personnel to obtain necessary substantiation to support their certifying actions.
- b. Provide additional security. Under the need to know principle, the certification for payment of sensitive operational transactions at the component Budget and Fiscal Offices would eliminate one strata of personnel reviewing the transactions. This is true because the component Budget and Fiscal Office personnel normally must become familiar with the detailed aspects of projects and activities of the component, and in addition on a centralized certification basis, Office of Finance certifying officers also must be sufficiently knowledgeable of the operational activities to support their actions.
- c. Eliminate duplication of effort. As stated in both a and b, above, present procedures require involvement in some depth by component Budget and Fiscal Officers in all projects and activities of the components to which assigned. Since they are, therefore, already generally familiar with the background relating to individual transactions, they could perform the examination and certifying functions with less overall extra effort in obtaining essential background data for performing the precertification audit than could a centralized Office of Finance certifying officer.

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2. DISADVANTAGES

- a. Loss of independence. The organizational supervisory arrangement whereby a decentralized certifying officer is subject to the specific administrative direction of the chain of command in the component to which assigned would tend to dilute, to various degrees, his complete freedom of decision as to the propriety of marginal or questionable transactions. Direct supervision of certifying officers on a centralized basis permits a more objective evaluation and critical review of proposed uses of funds within authorized limitations. This disadvantage can be offset to some extent by a positive regulatory provision authorizing any decentralized certifying officer to refer to the Office of Finance for certification any transaction concerning which he has a reservation.
- b. Loss of uniformity in processing similar transactions. The physical separation of certifying officers throughout Headquarters components, as opposed to their centralization in a single office under common supervision, inevitably would result in some lack of uniformity in the treatment of similar transactions. Under a centralized supervisor, interpretation of legal and regulatory guidelines can be readily disseminated for common use by all certifying officers thereby providing uniformity in the processing of the transactions relating to all components of the Agency. This factor is particularly important in certifying transactions relating to the rights, privileges, and entitlements of Agency personnel for whom applicable guidelines should be uniformly interpreted.
- c. Staffing difficulties and ineffective utilization of expertise. The delegation of certifying authority to the most highly qualified SF career employees in operational or support components would result in this responsibility being added to the other responsibilities of the component Budget and Fiscal Officers. This fact plus absences on annual and sick leave may make it desirable to have an alternate certifying officer in each component. Providing two qualified certifying officers for each component would add to the staffing and training problem, and could in the case of small components result in ineffective utilization of manpower.

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- d. Decentralization of document coding required. Offsetting to some extent the advantage of eliminating duplication of effort which would be achieved by decentralization (paragraph 1c, above) is the requirement, under decentralized certification, for the certifying officers in each component to become familiar with financial coding procedures in order to assure the proper recordation of transactions in the official accounting records of the Agency as maintained by the Office of Finance. This involves a thorough knowledge of the general ledger accounts affected by certified transactions, the allotment and cost center accounts, and object and sub-object class codes. The training in this area of decentralized certifying officers located physically at various distances from the Office of Finance would present a significant problem relating to decentralization of certifying authority.
- e. Extracting data from documents certified. In some cases there would have to be extracted from vouchers which were certified on a decentralized basis, certain data which would need to be incorporated into or reconciled with the central accounts. Examples of such data are payments which affect payroll accounts which are maintained on a centralized basis.

TAB E

TAB
B

**TRANSACTIONS NOT FEASIBLE FOR
DECENTRALIZED CERTIFICATION**

1. PAYROLL, PAYROLLED ALLOWANCES AND TAX PAYMENTS

These transactions include all employee, staff and contract agent compensation. The objective of providing uniformity of application of legal and regulatory requirements and limitation to these transactions affecting the personal entitlements of Agency personnel justifies the continued centralization of certifying authority with respect to them. Currently, on a centralized basis, the Compensation and Tax Accounts Branch of the Confidential Funds Division utilizes [redacted] employees as well as the machine records services of the Office of Computer Services in processing payments of salary, allowances, and leave entitlements of Agency personnel. These [redacted] employees and data processing services support the final action performed by certifying payrolls and allowances for payment. Under a decentralization of certifying authority for such payments, the functions performed by at least that number of payroll and allowance specialists would also require decentralisation; an even greater number of personnel would be necessary on a decentralised basis because of the fragmentation of activities and the relative impracticability of utilizing automatic data processing techniques.

2. TRAVEL VOUCHERS

- a. The centralization of certifying authority for travel claims, as distinguished from travel advances, is considered desirable to achieve the maximum feasible uniformity in the application of laws and regulations to the travel claims of individual travelers.
- b. In addition, overall economies in manpower utilization can be effected by the establishment of a central travel office at Headquarters for processing and certifying overseas TDY and PCS travel claims, as proposed in reference (a), and concurred in by the Deputy Director for Support in reference (c). The new central travel office can be staffed to process and certify for payment travel vouchers for [redacted] travel chargeable to confidential fund allotments in addition to those relating to overseas TDY and PCS travel claims as proposed in reference (a).

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- c. Further, the unit in the Fiscal Division which processes and certifies vouchered fund travel advances and claims comprises five positions. Advantages would accrue from combining this activity with the central travel office. These advantages would consist of (1) establishing a single place at Headquarters for providing services relating to travel claims for all Headquarters personnel; and (2) concentrating at such location all employees who perform travel audit and certification functions, thus increasing flexibility in utilization of personnel and maximizing the uniformity of application of travel regulations.
 - d. The Deputy Director for Support has indicated that space for such a central travel office can now be provided.
- I. ADVANCES AND PAYMENTS FOR SERVICES OR PROPERTY UNDER PROCUREMENT CONTRACTS, PURCHASE ORDERS OR AGREEMENTS EXECUTED BY THE OFFICE OF LOGISTICS**

The decentralization of certifying authority in this area would weaken internal control now provided by the segregation of this function outside the Agency component responsible for placing procurement orders and contracts and for verifying the receipt of material or services. Centralization of the certifying officer responsibility relating to these transactions in the Office of Finance provides for an independent verification of each invoice prior to payment against both the related purchase order or contract and evidence of material or services received. Particularly in this connection, the certification of billings under cost-fee contracts in the Office of Finance, which performs cost audits through its Industrial Contract Audit Division to assure proper evaluations of such billings before payments are authorized, would not be feasible for decentralization. Furthermore, the centralized examination and certification of procurement billings does not involve duplication of effort performed elsewhere in the Agency. The centralized examination and certification of invoices for payment also is an important element of the integrated financial property accounting procedures at Headquarters which are designed to enhance Agency internal controls over property transactions.

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4. ADVANCES AND PAYMENTS TO OTHER GOVERNMENT AGENCIES FOR MATERIEL AND SERVICES

Billings for materiel from other Government agencies involve the same factors of internal control discussed in the foregoing subparagraph. Since billings for services from other agencies usually cover charges applicable to numerous individual Agency components, they can from a practical standpoint only be certified centrally.



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5. INVOICES FROM CARRIERS FOR TRANSPORTATION

This category includes billings for travel costs from airlines and railroads and other carriers resulting from Agency transportation, charge accounts and billings for transportation of things. Inasmuch as such billings are on an Agency-wide basis, decentralization of certification responsibility would be entirely impractical of administration. Also, most of the individual charges relate to travel of Agency personnel for which the responsibility for pre-audit before certification and payment will remain centralized, the pre-audit of such charges also should be performed centrally.

6. ACCOUNTING OF STATIONS OPERATING UNDER CLASS B ACCOUNTING AND REPORTING PROCEDURES

These accountings require reconciliation with the Agency central cash accountability records, as well as the reconciliation and verification of Transfers of Accountability (T/A's) between field stations. These accountings also contain many items pertaining to payroll and property which must be incorporated into accounts maintained on a centralized basis. Considerable duplication would result if these accounts were processed on a decentralized basis. It is believed the procedures and techniques observed in the audit of Class B accountings (including any [redacted] activities operated from Hdqrs.) prior to certification, in the

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reconciliation of the accountings with Headquarters controls, and in the preparation of posting vouchers can be more effectively standardized on a centralized basis so as to make most effective use of the total Agency manpower assigned to this function.

7. ADVANCES, CLAIMS, AND ACCOUNTINGS FOR IMPREST AND REVOLVING FUNDS

Examination and certification for payment of transactions relating to imprest or revolving funds in the custody of decentralized components should be performed centrally in order to provide an independent review and effective internal control over these transactions including assurance that the funds are used only for authorized purposes and evaluation as to the continued need for the funds provided.

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8. PAYMENTS TO PROPRIETARY AND OPERATIONAL [REDACTED] PROJECTS

There are two reasons why payments to proprietary and operational [REDACTED] activities should not be decentralized on the same basis as other operational payments. First, the centralized certification of payments to such projects permits review and evaluation in the Office of Finance, by personnel experienced in commercial accounting and auditing practices, of the effect of the payments on the records of the project, as well as on the proprietary project accounts of the Agency. This could not be uniformly accomplished under decentralization of certifying authority as not all Budget and Fiscal Officers possess this commercial accounting background. Second, the decentralization of the certifying function to operating components would further fragment and weaken the already inadequate accounting controls pertaining to proprietary projects. My memorandum dated 23 January 1964, Subj: Deficiencies in Agency Financial Control Over Proprietary Activities, sets forth in detail the areas in which, I believe, proprietary accounting controls need to be strengthened.

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9. CLAIMS AND ACCOUNTINGS UNDER COVER COMPANY AGREEMENTS EXECUTED BY SPECIAL CONTRACTING OFFICES OF THE OFFICE OF PERSONNEL

These contracts are essentially personal service contracts and the

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partial payments of compensation made by the cover company must be posted to and reconciled with the centrally maintained payroll records. Accordingly, the decentralized certifying officer would not have available to him factors which affect the final settlement with the cover company.

10. OTHER TRANSACTIONS NOT IDENTIFIED FOR DECENTRALIZED CERTIFICATION

All miscellaneous claims or accountings not clearly identified in Tab C should be certified and processed on a centralized basis.

TAB C

TAB
C

TRANSACTIONS FEASIBLE FOR DECENTRALIZED CERTIFICATION

1. With appropriate policy and procedural guidelines and controls, decentralization of certifying authority would be feasible for the categories of transactions listed below:

a. Advances for:

(1) Allowances not payrolled, such as transfer allowances for returnees and uniform allowances.

(2) Entertainment

(3) [REDACTED]

(4) Operational purposes (other than payments to proprietary and operational [REDACTED] projects).

(5) Travel

(6) Cover company advances (made under agreements executed by special contracting officer).

b. Accountings and claims for:

(1) Allowances not payrolled, such as transfer allowances and uniform allowances.

(2) Entertainment

(3) [REDACTED]

(4) Operational purposes (other than payments to proprietary and operational investment projects).

2. The foregoing are the principal types of financial transactions with respect to which the decentralized Budget and Fiscal Officers and the Office of Finance perform overlapping functions. Decentralization of certifying authority for these transactions appears warranted to

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achieve economy in manpower utilization. It should be understood, however, that decentralization of certifying authority carries with it the responsibility for performing a critical review to assure that each transaction is proper and fully documented; for conforming with applicable standards relating to the audit of transactions prior to payment; for clearly identifying the appropriate accounting treatment, including classifying and coding each transaction and extracting essential data relating to agent salary payments for the Office of Finance; and for maintaining records, files, etc. needed for reference and post audit purposes.

TAB D

TAB
D

PLAN FOR INITIATING ACTION

1. SCOPE OF DECENTRALIZATION

The decentralization of certifying authority should be made to the following offices which currently process the largest volume of transactions of the type considered feasible for decentralization:

- a. All components of the Office of Deputy Director for Plans
- b. Office of Communications

2. MANPOWER ADJUSTMENTS

a. Deputy Director for Plans

The DDP components would save ten positions by centralization of the travel function according to the estimate contained in reference (a), but it is estimated that they would need to add three positions to absorb the certifying functions outlined in Tab C. This would result in an estimated net savings of seven positions.

b. Office of Communications

The Office of Communications would save four positions by centralization of the travel function according to the estimate contained in reference (a); and it is estimated that it would need no additional positions to absorb the certifying functions outlined in Tab C. Thus, an estimated savings of four positions would be achieved.

c. Office of Finance

(1) The decentralization of the certifying functions as outlined in Tab C would save an estimated six positions in the Office of Finance.

(2) The establishment of a centralized travel office under the Office of Finance with a staff of 18 positions would add an estimated nine positions to the Office of Finance manpower.

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requirements inasmuch as nine positions would be available from present travel units (four from the Confidential Funds Division and five from the Fiscal Division).

- (3) Thus, the Office of Finance would require three additional positions in its T/O if certifying authority were decentralized as provided in Tab c and the 18 position central travel office were established.

d. Summary

The net effect upon the manpower requirements of the Agency of initiating the recommendations stated in paragraph 4 of this Tab would be a savings of an estimated eight positions, as summarized below:

| <u>Estimated Changes in Manpower Requirements</u> | |
|---|---------|
| Office of Deputy Director for Plans | - 7 |
| Office of Communications | - 4 |
| Office of Finance | + 3 |
| Net Savings | - 8 |

3. The above reflects only the estimated net changes in numbers of positions. A number of transfers and exchange of employees between the Office of Finance and the operating components would be necessary to insure application of the requisite skills to the various positions involved. We should also like to emphasize that the savings in manpower are estimates. The actual savings could be less than those estimated because of the staffing problems outlined in Tab A, paragraph 2c. On the other hand the savings in manpower could be greater than we have estimated due to unforeseeable benefits which may be realized once the employees are in place and actually doing the job.
4. We therefore recommend that the decentralisation of the certifying function and the centralization of the travel function be implemented as soon as practicable; and that the specific T/O adjustments required be made after implementation.